

1965

AR45

See

April 12.



CROWS NEST INDUSTRIES LIMITED

(Formerly The Crow's Nest Pass Coal Company, Limited)

Established 1897

Including Wholly-Owned Subsidiary Companies

THE CROW'S NEST PASS ELECTRIC LIGHT & POWER COMPANY, LIMITED

MORRISSEY, FERNIE & MICHEL RAILWAY COMPANY

THE CROW'S NEST PASS OIL & GAS COMPANY, LIMITED

FERNIE EQUIPMENT COMPANY LIMITED

THE TRANSPACIFIC EXPORT CORPORATION

KNIGHT LUMBER COMPANY LIMITED

E. C. LETCHER LUMBER COMPANY LIMITED

EAST KOOTENAY LUMBER COMPANY LIMITED

GOLD CREEK TIMBER COMPANY LIMITED

ST. MARYS LUMBER CO. LTD.

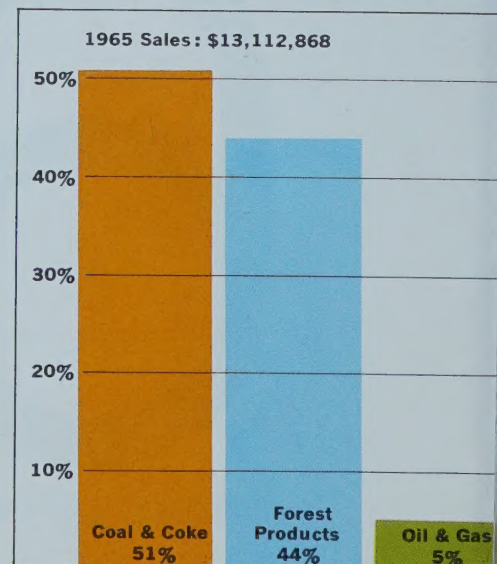
BALMER MINE LIMITED

HEAD OFFICE FERNIE, BRITISH COLUMBIA



ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1965

**A resource-oriented
company
growing with
British Columbia**



The sales of **Coal and Coke** products accounted for approximately 51 per cent of the Company's total business in 1965. The Japanese market, first developed with a small test shipment in 1957, today is the Company's biggest export customer and bought just over 400,000 tons of coking coal in 1965. Other major coal and coke customers include smelters in Flin Flon, Trail, Kimberley, Helena, Bunker Hill and Selby, and pulp and paper companies in Ontario.

Forest Products operations form an increasingly important part of the Crows Nest picture with 44 per cent of total sales originating from this Division. The Company is now responsible for the annual cut of 97 per cent of the timber in the Fernie Sustained Yield Unit which stretches 110 miles north from the U.S. border. The Company has a similar responsibility for 18 per cent of the timber in the Cranbrook Sustained Yield Unit which supplies its St. Marys operation. Sawmills are located at Natal, Elko and Porteous, B.C., and work was started during the year on preparing a site for a new mill operation at Morrissey, 10 miles south of Fernie.

The return from **Oil and Gas** operations decreased during 1965 as a result of the pro-ration policy of the Alberta Government. Work to assess the petroleum potential of the main Crows Nest property in British Columbia continued during the year. The British American Oil Co., our partner in this venture, carried out seismic work in the Fernie Basin and a well will be drilled in 1966.

Board of directors

THOMAS F. GLEED, Seattle
THOMAS G. EWART, Calgary
HENRY C. JUDD, Menlo Park
JOHN W. PITTS, Vancouver
GEORGE V. POWELL, Seattle
F. DREWE PRATT, Vancouver
D. E. SKINNER, Seattle

Director emeritus

CHARLES O. JENKS, St. Paul

Officers

THOMAS F. GLEED, *President and Chairman*
WILLIAM R. PRENTICE, *Executive Vice-President*
JAMES E. MORRIS, *Vice-President*
JOHN F. CLEEVE, *Vice-President*

Auditors

CLARKSON, GORDON & CO., Calgary

Transfer agents

CANADA PERMANENT TRUST COMPANY, Toronto
BANKERS TRUST COMPANY, New York

Registrars

NATIONAL TRUST COMPANY, LIMITED, Toronto
MANUFACTURERS HANOVER TRUST COMPANY, New York

Highlights of the year



NEW NAME REFLECTS CORPORATE GROWTH

The continuing diversification of the Company into forest products and oil and gas development resulted in a decision to replace The Crow's Nest Pass Coal Company Limited name. In accordance with the shareholders' authorization at a Special General Meeting April 27, 1965, the name Crows Nest Industries Limited became effective May 11, 1965. A new corporate symbol reflects this change. The stylized tree indicates the Company's forestry activities while the four diamond-shaped symbols represent the products Crows Nest recovers from the ground. All the symbols are ringed by a broad "C" – indicating again the integration of these natural resource activities into the Crows Nest corporate structure.

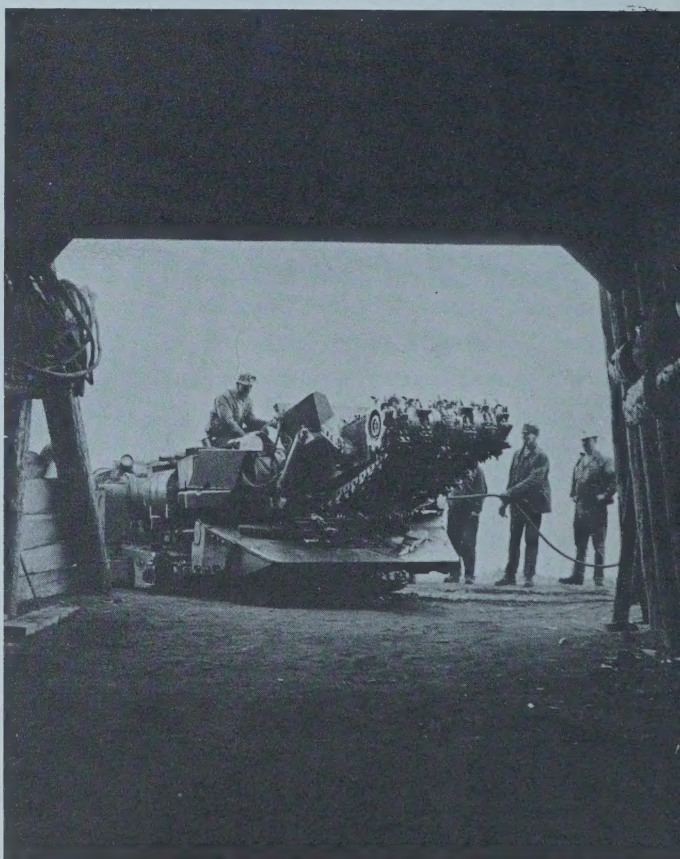
GROUNDWORK LAID FOR INCREASED COAL EXPORTS

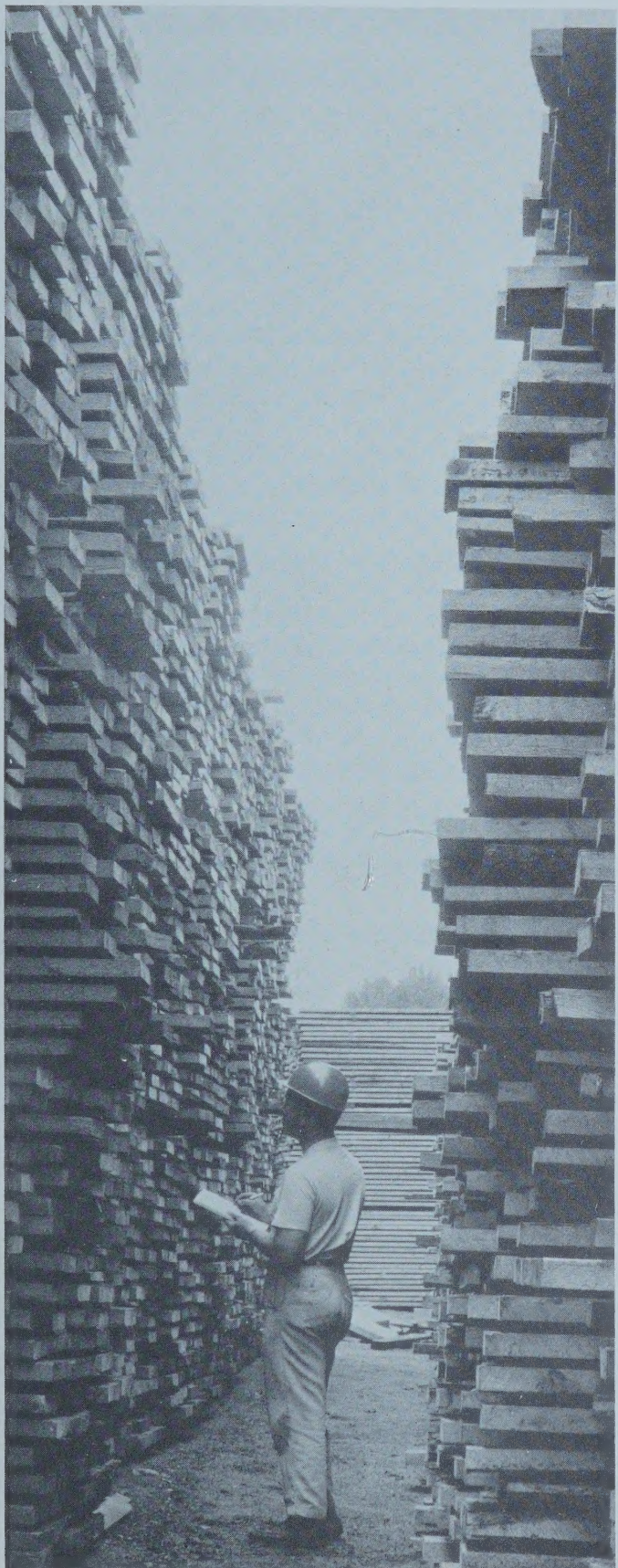
A program for greatly increased coal exports to Japan was advanced during the year through intensive discussions and planning with the Japanese steel mills, the Canadian Pacific Railway, the Great Northern Railway, survey and engineering consultants, and possible ship-loading partners.

The interest of the Japanese in buying large quantities of the Company's Balmer coal was further confirmed in a visit by Japanese mill officials to the property in November of 1965.

NEW BALMER SEAM DEVELOPED

An extensive program of exploration tunnels and diamond drill holes has established the formation and extent of an extremely desirable seam of coal under the Company's property, called the Balmer Seam. This seam has proven marketable reserves of 50 million tons and probable reserves of an additional 25 million tons. The Balmer Seam is approximately 50 feet thick and the volume of marketable reserves is based on only 50 per cent of the upper 15 feet which it is economically possible to mine at this time.





FOREST PRODUCTS DIVISION EXPANDED

The Company achieved a 205 per cent increase in lumber sales during 1965 as the result of sharply increased production at existing sawmills and the acquisition of new properties.

Sales of both rough and dressed lumber totalled 68½ million board feet compared with 22½ million board feet in 1964.

Acquired during the year were the assets, interests and undertakings of St. Marys Lumber Co. Ltd. of Porteous, B.C., the L.S. Lumber Company at Flathead, B.C., and other small local operations. A fire shortly after the end of the fiscal year destroyed the sawmill at Flathead.

POSITION SOUGHT IN B.C. PULP HARVESTING PICTURE

The availability of chips from our own operations and proximity to additional sources in Alberta and Montana provide the base for establishment of a pulp mill in the area, and the Company consequently applied to the Provincial Government in 1965 for a Pulp Harvesting Licence. An auction called by the Government to resolve similar proposals from two other developers was suspended by the Minister of Forests on August 2nd without a decision being made.

EXPORT OFFICE MAKES SIGNIFICANT CONTRIBUTION

The Company's export arm in Seattle, The Transpacific Export Corporation, made a major contribution to the growth of the Forest Products Division by increasing its log export sales from \$225,000 in 1964 to \$1,210,000 in 1965, a five-fold gain.

THREE FACTORS AFFECT EARNINGS PICTURE

Increased earnings during a year of expanding sales were limited by three factors: extraordinary expenses on the Company's property related to the expansion program; a three-week strike of mining operations during January and February which resulted in coal production dropping by 67,000 tons from the previous year; and a blow-down in the woods which resulted in lower profitability on the recovery and sale of the damaged logs.



CROWS NEST INDUSTRIES LIMITED

AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Five-year summary of comparative highlights

	1965	1964	1963	1962	1961
Sales of all products.....	\$13,112,868	\$ 8,868,843	\$ 8,580,081	\$ 8,260,924	\$ 8,465,144
Production – coal (tons).....	767,035	834,234	756,284	732,789	792,050
– coke (tons).....	142,468	131,689	134,370	136,124	140,344
– breeze (tons)...	15,028	12,518	11,395	9,318	15,806
– lumber (fbm)...	68,375,793	24,275,253	17,435,569	15,463,727	13,178,458
– oils (bbls).....	182,933	224,063	230,492	224,314	263,877
Net Earnings.....	\$ 1,085,898	\$ 1,061,762	\$ 720,389	\$ 508,377	\$ 827,358
Net Earnings per share*.....	\$1.37	\$1.37	93¢	65¢	\$1.06
Dividends declared†.....	\$ 551,756	\$ 535,340	\$ 549,503	\$ 461,151	\$ 483,971
Dividends per common share*.....	75¢	75¢	75¢	60¢	63¢
Depreciation and depletion..	\$ 1,184,957	\$ 795,570	\$ 773,931	\$ 744,580	\$ 569,044
Capital expenditures.....	\$ 2,848,548	\$ 2,518,488	\$ 510,036	\$ 1,262,015	\$ 1,096,412
Working capital.....	\$ 1,246,482	\$ 2,192,182	\$ 2,109,941	\$ 2,048,775	\$ 2,373,314
Common shareholders' equity†.....	\$10,146,721	\$ 9,569,615	\$ 9,044,193	\$ 9,589,430	\$ 9,538,954
Equity per common share†...	\$14.12	\$13.38	\$12.65	\$12.48	\$12.42
Number of employees at year-end.....	935	823	754	742	882
Number of shareholders at year-end					
Canadian.....	311	247	201	190	171
Other.....	314	355	403	442	417
Number of common shares outstanding at year-end*...	780,475	777,170	777,170	777,100	776,850
Percentage held by Canadians.....	22%	17%	12%	12%	13%
Percentage held by Subsidiary Companies.....	8%	8%	8%	1%	1%
Other.....	70%	75%	80%	87%	86%

NOTES: *Adjusted to present \$8.00 P.V. shares. †Excluding shares held by subsidiaries.

Management's report to the shareholders

The increase in the Company's sales of all products from \$8,868,000 in 1964 to \$13,112,000 in 1965 reflects continuing expansion and diversification.

Earnings were \$1,085,898 compared with \$1,061,762 in 1964. Dividend payments to common shareholders amounted to 75 cents per share. We are informed that shareholders residing in Canada are permitted a 10% depletion allowance in respect of dividends paid during 1965 when computing their income tax returns. It is interesting to note that the Company has paid dividends continuously since 1918.

The 1965 earnings include a non-recurring gain, of \$372,035 resulting from the sale of the Company's total interest in The Calgary and Edmonton Corporation Limited and a \$225,000 settlement receivable from Alberta Natural Gas Company for the adverse occupancy by a high pressure natural gas pipeline on Company lands. A similar capital gain of \$566,840 from the sale of securities was part of the 1964 earnings.

Capital expenditures of \$2,848,548 for new mining equipment and forestry acquisitions were made during the year.

The sale of coal and coal products accounted for just over half of the Company's business in 1965. The era of post-war contraction in Canadian coal mining, ushered in by changing domestic fuel needs, now is being overcome by aggressive marketing policies aimed at selling more of our coal abroad.

The Company is moving toward a long-term contract to export in the range of two million tons a year of Balmer coal to Japan. The possibility of even larger tonnages being required was raised when a group of officials from the Japanese steel industry visited the property in November.

The question of freight rates, which has long barred selling increased volumes of Canadian coal at world market prices without the help of government subsidies, now appears to be soluble through one or more shipping alternatives. It is a situation which must be solved or Canada stands to lose its diminishing foothold in the Japanese market.



The full development of the Balmer coal reserves will require substantial capital expenditures on the property for a new treatment plant, new loading facilities and equipment to take advantage of cost savings possible through integral train shipments from mine to wharf. A detailed brief of our plans in this area was prepared during the year and presented to railway, government and terminal officials.

The potential your Company sees for increased coal sales is duplicated in the opportunities we are developing for greater utilization of the timber resources which overlay our property.

Work was started during the past year on clearing a 420-acre site at Morrissey, near Fernie, to provide a central location for the Company's future sawmill, plywood, pulp and newsprint projects as they become feasible.

Active development work in the oil and gas field and the exploration for other mineral reserves on our property reflect your management's optimism that Crows Nest Industries is operating in one of the most exciting resource areas of British Columbia.

The Board of Directors responsible for the fullest development of these resources was supplemented during the year with the addition of Mr. George V. Powell of Seattle as a Member. Mr. Charles O. Jenks became a Director Emeritus during the year and Mr. C. A. Eckart left the Board because of his heavy operating responsibilities with a major railway.

A handwritten signature in dark ink, reading "Th F. Gleed". The signature is stylized with a large, sweeping "T" and a cursive "Gleed".

THOMAS F. GLEED,
President and Chairman.



CROWS NEST INDUSTRIES LIMITED

(Incorporated under the laws of Canada)

AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Consolidated Balance Sheet, December 31, 1965 and 1964

ASSETS	1965	1964
CURRENT:		
Cash.....	\$ 191,879	\$ 154,111
Government bonds at cost, which approximates market value.....	123,125	337,104
Accounts receivable.....	1,124,023	742,752
Claim receivable.....	225,000	—
Income taxes refundable.....	96,703	—
Inventories valued at the lower of cost or market.....	2,725,950	2,257,484
Prepaid expenses.....	71,004	138,643
Total current assets.....	<u>4,557,684</u>	<u>3,630,094</u>
INVESTMENTS AT COST.....	<u>—</u>	<u>1,467,676</u>
FIXED – (Note 2):		
Mines, real estate, plant and equipment less accumulated depreciation of \$13,888,606 (1964 – \$13,092,926).....	6,598,679	5,174,223
Petroleum and natural gas interests –		
Acquisition cost of properties less depletion of \$293,253 (1964 – (\$244,422)).....	965,885	1,013,617
Productive development costs, \$2,097,597 (1964 – \$2,064,024) less amounts written off.....	1	1
Production equipment less accumulated depreciation of \$655,323 (1964 – \$606,878).....	492,886	540,290
Timber cutting rights less accumulated depletion of \$160,589 (1964 – \$2,764).....	1,640,555	1,306,284
	<u>9,698,006</u>	<u>8,034,415</u>
OTHER:		
Mortgages receivable.....	90,001	114,268
Refundable deposits.....	294,805	238,629
Deferred mine development expenses.....	777,331	242,221
	<u>1,162,137</u>	<u>595,118</u>
	<u>\$15,417,827</u>	<u>\$13,727,303</u>
See accompanying notes to consolidated financial statements.		

STATEMENT 1

LIABILITIES**1965****1964****CURRENT:**

Bank loans and overdraft.....	\$ 1,707,525	\$ 164,750
Accounts payable and accrued charges.....	1,192,102	748,864
Income taxes payable.....	—	125,544
Other taxes payable.....	81,408	115,254
Instalments of loans payable due within one year.....	330,167	283,500
Total current liabilities.....	<u>3,311,202</u>	<u>1,437,912</u>

LOANS PAYABLE (Note 3).....	<u>643,673</u>	<u>354,014</u>
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DEFERRED INCOME TAXES (Note 4).....	<u>1,316,230</u>	<u>1,065,762</u>
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SHAREHOLDERS' EQUITY:

Capital (Note 5) –		
Authorized –		
25,000 3% cumulative redeemable preferred shares of \$100 par value each		
1,250,000 common shares of \$8 par value each		
Issued –		
13,000 preferred shares.....	—	1,300,000
780,475 common shares (1964 – 777,170).....	6,244,667	6,218,227
Contributed surplus (Statement 2).....	20,000	3,475
Surplus allocated for emergency and capital expenditures	—	1,200,000
Capital surplus (Statement 2).....	1,300,000	—
Earned surplus (Statement 2).....	3,357,539	2,923,397
	<u>10,922,206</u>	<u>11,645,099</u>
Less 62,050 shares of parent owned by subsidiary at cost.....	775,484	775,484
	<u>10,146,722</u>	<u>10,869,615</u>

On behalf of the Board:

T. F. GLEED, Director.

F. D. PRATT, Director.

\$15,417,827\$13,727,303



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Consolidated statements of surplus
for the years ended December 31, 1965 and 1964

STATEMENT 2

	1965	1964
Earned surplus		
Balance, beginning of year.....	\$ 2,923,397	\$ 2,397,975
Add:		
Net profit for the year and special credits.....	1,085,898	1,061,762
Transfer of balance of surplus allocated for emergency and capital expenditures.....	1,200,000	—
	<u>5,209,295</u>	<u>3,459,737</u>
Deduct:		
Transfer to capital surplus resulting from redemption of preferred shares.....	1,300,000	—
Dividends paid –		
On preferred shares.....	14,425	—
On common shares.....	537,331	536,340
	<u>1,851,756</u>	<u>536,340</u>
Balance, end of year.....	<u>\$ 3,357,539</u>	<u>\$ 2,923,397</u>
Contributed surplus		
Balance, beginning of year.....	\$ 3,475	\$ 3,475
Excess of proceeds of sales of common shares during the year over par value thereof.....	16,525	—
Balance, end of year.....	<u>\$ 20,000</u>	<u>\$ 3,475</u>
Capital surplus		
Transfer from earned surplus resulting from redemption of preferred shares.....	\$ 1,300,000	—
Balance, end of year.....	<u>\$ 1,300,000</u>	<u>—</u>
See accompanying notes to consolidated financial statements.		



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENT 3

**Consolidated statement of profit and loss
for the years ended December 31, 1965 and 1964**

	1965	1964
Sales of coal, coke, petroleum and forest products.....	\$13,112,868	\$ 8,868,843
Less operating expenses.....	11,011,149	6,955,773
Operating profit before the following deductions.....	2,101,719	1,913,070
Deduct:		
Directors' fees and remuneration.....	46,400	42,000
Interest on loans payable.....	90,247	44,819
Depreciation.....	963,728	723,003
Depletion.....	221,229	72,567
Exploration and development expenditures written off.....	73,617	127,094
	1,395,221	1,009,483
Operating profit.....	706,498	903,587
Add interest, dividends and other income.....	68,612	115,286
Profit before income taxes.....	775,110	1,018,873
Income taxes (Note 4).....	286,247	523,951
Profit for the year before special credits.....	488,863	494,922
Gain on sales of investments.....	372,035	566,840
Damages recoverable on expropriation of property.....	225,000	—
Net profit for the year and special credits.....	\$ 1,085,898	\$ 1,061,762

See accompanying notes to consolidated financial statements.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENT 4

**Consolidated statement of source and application of funds
for the year ended December 31, 1965**

SOURCE OF FUNDS:

Operations –

Net profit for the year and special credits.....	\$ 1,085,898
Depreciation and depletion.....	1,184,957
Deferred income taxes.....	250,468
Total funds from operations.....	2,521,323
Proceeds from issue of common shares.....	42,965
Disposal of investments.....	1,467,676
Increase in loans payable.....	289,659
Total funds provided.....	4,321,623

APPLICATION OF FUNDS:

Expenditures on properties, plant and equipment (net).....	2,848,548
Increases in mortgages receivable, refundable deposits and deferred mine develop- ment expenses.....	567,019
Dividends to shareholders.....	551,756
Redemption of preferred shares.....	1,300,000
Total funds applied.....	5,267,323
Decrease in working capital.....	\$ 945,700

See accompanying notes to consolidated financial statements.

Auditors' Report

To the Shareholders of
Crows Nest Industries Limited

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1965 and the consolidated statements of profit and loss, earned surplus, contributed surplus, capital surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and the consolidated statements of profit and loss, earned surplus, contributed surplus, capital surplus and source and application of funds present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies at December 31, 1965, the results of their operations and the sources and applications of funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 17, 1966.

CLARKSON, GORDON & CO.,
Chartered Accountants.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Notes to consolidated financial statements
December 31, 1965

1. Change of name:

By Supplementary Letters Patent dated May 11, 1965, the Company's name was changed from The Crow's Nest Pass Coal Company, Limited to Crows Nest Industries Limited.

2. Accounting practices:

The companies follow the practice of capitalizing the acquisition costs of oil properties and of charging exploration expenses, carrying charges on properties and the drilling costs of wells against income as incurred. Expenditures on productive wells during 1965 were not material in amount. Depletion of productive oil properties is provided on the unit of production method based on estimated reserves of oil and gas.

Based on the Company's estimate of recoverable reserves of coal, a charge for depletion would be immaterial in amount and accordingly no provision for depletion of coal properties is included in the accounts.

Depreciation of fixed assets is provided on the reducing balance method at rates designed to amortize the costs of these assets over their estimated useful lives.

3. Loans payable:

4¾% Coal Production Assistance Act Loan.....	\$650,000
6% Bank loans.....	323,840
	<u>973,840</u>
Less instalments due within one year included in current liabilities.....	330,167
	<u><u>\$643,673</u></u>

The Coal Production Assistance Act Loan is secured by chattel mortgages on certain of the Company's mining assets and is repayable at 30¢ per ton of coal

produced from certain mines with minimum annual payments of \$216,667.

The bank loans are payable in monthly instalments by a subsidiary company and are secured by the hypothecation of 62,050 shares of the parent company owned by the subsidiary and by the assignment of the subsidiary company's interest in certain producing oil and gas properties.

4. Income taxes:

Income taxes charged against 1965 income include a deferred amount of \$250,468 as a result of claiming for tax purposes amounts greater than the depreciation charged in the companies' accounts. This amount is applicable to those future years in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the balance sheet in the item "Deferred income taxes".

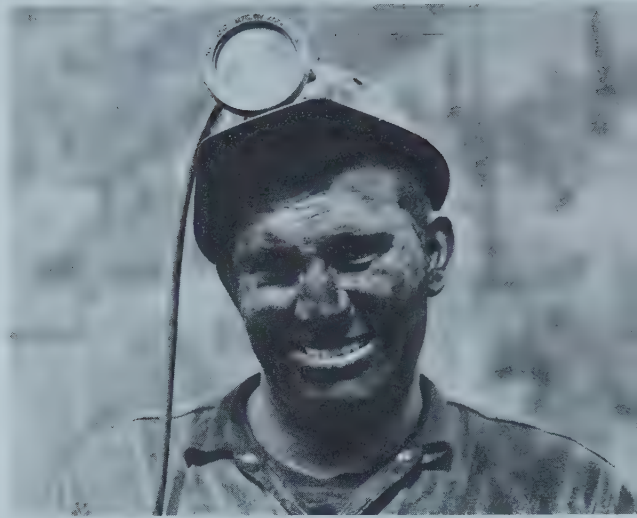
5. Capital stock:

3,305 common shares were issued during the year to officers on exercise of options for \$42,965 cash. The par value of the shares issued, \$26,440, was credited to share capital account and the balance to contributed surplus.

On May 5, 1965, 13,000 3% cumulative redeemable preferred shares of \$100 each were redeemed for \$1,300,000 cash.

Options have been granted to officers and employees to purchase 13,250 common shares at prices varying from \$12.00 to \$20.00 per share which are exercisable in annual instalments on a cumulative basis while in the employ of the Company. A further 7,750 shares are reserved under the Company's stock option plan.

**It's people who keep
Crows Nest Industries
growing**



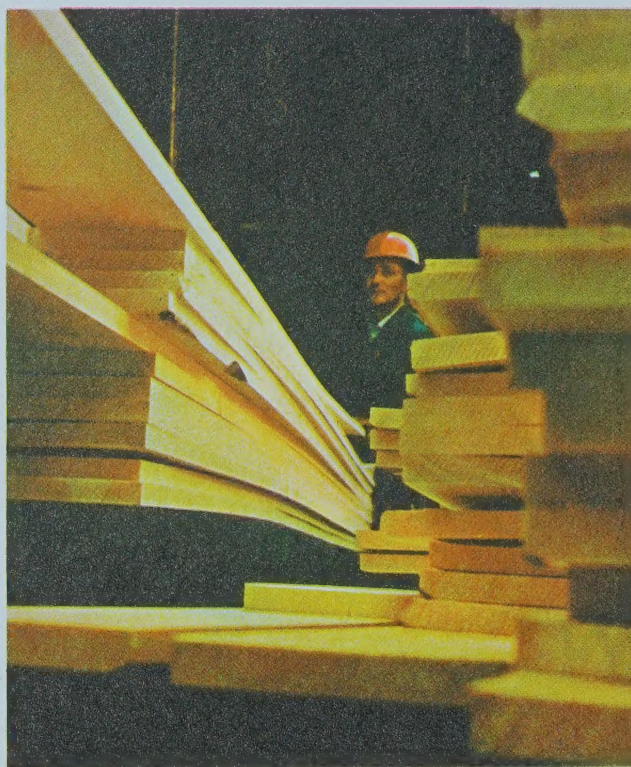
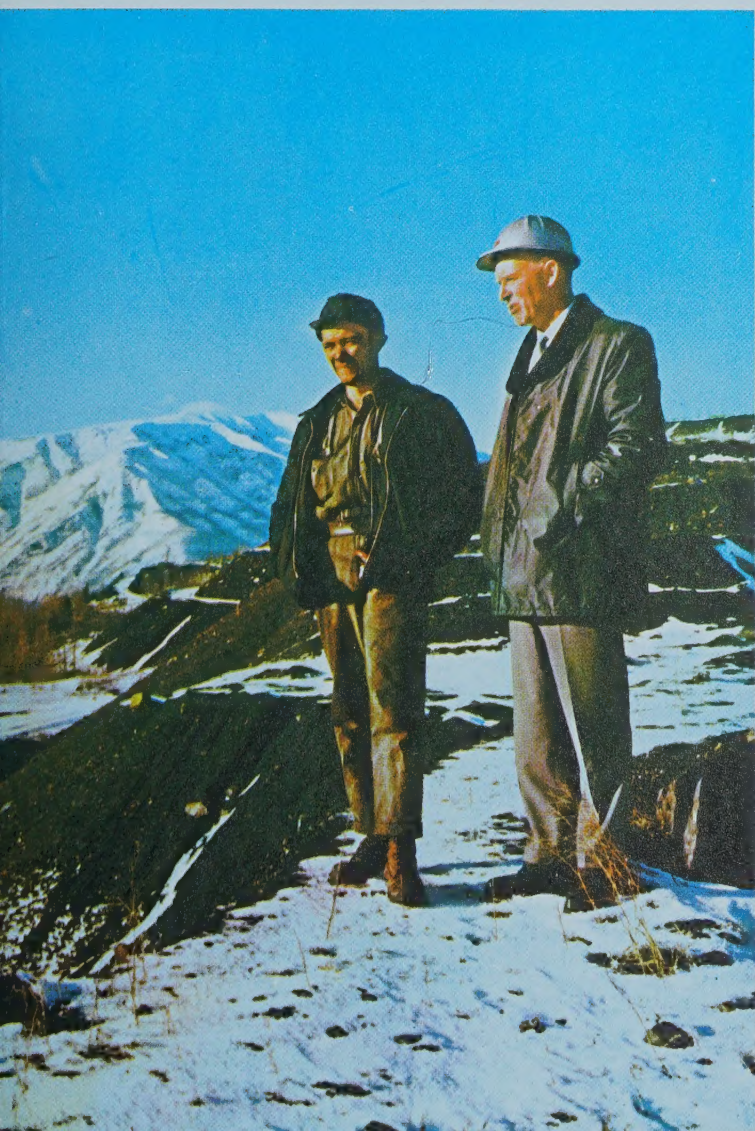
It is people like the men pictured here who are taking Crows Nest Industries into a new era of accelerated growth. They are men with new skills and new machines; men with a proud tradition of working with their hands to conquer a reluctant nature and harvest the bounty which lies above and below the ground; men with the financial, production and marketing skills to make the whole thing practical.





Far Left: New projects are discussed with the help of a relief map of the Company's property by Bill Wilson (left), Manager of the Forest Products Division; Roy Inui, General Manager of Transpacific Export Corporation, and Executive Vice-President William R. Prentice.




Left: Vice-President John F. Cleeve is the Company's financial officer.



Vice-President James E. Morris (right) and Mines Division Manager Vans Hulbert have the big job of getting the Company's new Balmer Mine into full production while continuing operations at the present Michel Colliery.

Property Map of Crows Nest Industries Limited

LEGEND

-  CROWS NEST INDUSTRIES
PROPERTY (251,283 ACRES)
-  FERNIE S.Y.U. BOUNDARY
-  RAILROADS



